

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 209 – SB 634

February 28, 2011

SUMMARY OF BILL: Expands the definition of “equipment” contained in the Tennessee Local Development Authority Rural Fire Protection Equipment Act to include real property. Authorizes the Tennessee Local Development Authority to make loans to volunteer fire departments for real property under the expanded definition of “equipment.” Requires the loan agreement to include the amount of the loan, not to exceed the fair market value of the real property to be purchased.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – \$20,000/FY11-12 to FY31-32

Increase State Expenditures – \$260,000/One-Time

Increase Local Revenue – \$25,000,000/One-Time/Permissive

Increase Local Expenditures – \$1,922,000/FY11-12 to FY31-32/Permissive

Assumptions:

- According to the Comptroller of the Treasury, there will be a \$25,000,000 demand for financing. Bonds will be sold on the capital markets to finance the loan program.
- According to the Comptroller, the annual administrative fee to the Office of State and Local Finance (OSLF) will be eight basis points (or 0.08%) on the par amount of the loan, resulting in an increase to state revenue of \$20,000 ($\$25,000,000 \times 0.0008$).
- According to the Comptroller, start up costs to initiate a new lending program would be \$260,000 which includes bond counsel (\$185,000), issuer’s counsel (\$18,000), OSLF (\$20,000), rating (\$25,000), and other (\$12,000).
- According to the Comptroller, the interest rate is estimated to be 4.5 percent. Accounting for the administrative fee, the total annual interest rate applied to loans will be 4.58 percent ($4.5\% + 0.08\%$). Loans will be issued for a term of 20 years.
- Local governments will receive a one-time permissive increase in revenue as a result of loans issued by OSLF. There will be a recurring semi-annual increase in expenditures to pay down the principal and interest of all loans. Five percent of the principal plus interest will be paid annually.
- The permissive increase in local government expenditures as a result of debt service on loans will be \$1,922,014 per year.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director

/agl